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TAGS: ECON EAID EINV ETRD MZ
SUBJECT: JUNE MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

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FOREIGN INVESTMENT

(U) The Millennium Challenge Corporation (MCC) visited Mozambique and spoke with key GRM officials to introduce the MCA program (Ref A). The group stressed the importance of formulating proposals that accelerate growth and reduce poverty. Calling themselves "development investors", the group stated that while proposals must have measurable results, there is no timetable or format for proposal submission and that it is not likely the MCC will fund projects in all sixteen MCA-eligible countries. Currently, the GRM has put together a high-level drafting group that will submit proposals to the MCC. This group consists of ministers from Industry and Commerce, Planning and Finance (who currently also serves as the Prime Minister), Health, Public Works, and Transportation. A larger, technical drafting group to serve under the high-level body has also been named. This group consists of national directors of several ministries, private sector representation through CTA (Confederation of Mozambican Economic Associations), and civil society representation through Cruzeiro do Sul. The MCC immediately has $1 billion to invest in development projects across the sixteen countries. They are expecting to receive an additional $1.5 billion to invest in FY05.
(U) The Arab Bank for Economic Development in Africa (BADEA) signed two agreements for a total of $20 million in financing for the rehabilitation of roads in the city of Maputo and the stretch from Chissano-Chibuto in Gaza Province. Longtime partners with the GRM, BADEA guaranteed the Ministry of Planning and Finance $10 million directly from BADEA and $10 million from a BADEA-contracted partner. An unspecified amount of the financing comes in the form of a donation.
(U) On June 1, the 900-kilometer natural gas pipeline that runs from Inhambane, Mozambique to Secunda, South Africa, was inaugurated. Mozambican President Joaquim Chissano, President Mbeki of South Africa, and Mtswati III, King of Swaziland attended the formal inauguration along with several ambassadors, including the U.S. Ambassador to Mozambique. Total investment for pipeline construction and installation reached $1.2 million, financed by Mozambican and South African entities - the National Hydrocarbon Firm (Mozambique) and SASOL (South Africa). The pipeline originates in Inhambane and passes through the provinces of Gaza and Maputo before reaching Secunda, South Africa. Discovery of natural gas in the Pande and Temane fields (Inhambane) occurred in 1962 after several studies were conducted, but the following years of colonial and civil war hampered any investment. Currently, gas is exported to South Africa via the pipeline; however, several studies are being conducted to see if gas runoff may be used to benefit Mozambique. A public-private partnership is providing energy via the pipeline to Vilankulos, Inhassoro, and Nova Mambone (Inhambane) and Machanga (Sofala). Tourists on the island of Bazaruto and Magaruque also benefit from Temane gas electricity.
(U) Following a series of delays, Kenmare Resources of Ireland signed an agreement with three European and two African financial institutions to obtain $269 million in financing to construct a heavy sands production factory in the northern province of Nampula. The five financial institutions are: European Investment Bank (BEI), German Development Bank (KFW), Dutch Development Bank (FMO), African Development Bank (ADB), and South African bank, ABSA. According to Noticias daily news, Kenmare hopes to begin construction within the next four months, although the project requires an extra $42 million in financing. The financed amount will be paid back over a period of 15 years. Sources say that up to 425 people will be employed, only 10% of which will be foreign laborers. Up to 619,000 tons of ilmenite, 55,000 tons of zircon, and 18,000 tons of rutile will be produced annually in the Moma heavy sands project. Generally, these resources contribute to the production of paint, ceramics, material used in aviation and medical surgery.
(U) Vodacom Mocambique, a subsidiary of Vodacom South Africa that provides mobile cellular service, has reached over

100,000 customers in Mozambique since its inception in the market in December 2003. Vodacom Mocambique believes that the key to its success lies in the range of products offered, including prepaid cellular minutes with no airtime window, prepaid roaming to South Africa, and free "Please call me" messages. The company is in competition with Mcel, the previously sole national cellular phone company, which is racing to offer new promotional packages to keep current customers. Vodacom is the only firm to offer bundled minutes with contract packages so that Mozambican customers can send messages to over 600 GSM cellular networks worldwide. Vodacom Mocambique began coverage in Maputo, Vilanculos, and Matola. It has now expanded to cover Pemba, Beira, Nacala, and Nampula and the corridors between Maputo and South Africa, Swaziland, Xai-Xai and Beira to Zimbabwe.

TOURISM

(U) The Ministry of Tourism has pre-selected four tourism operators to work in Limpopo National Park, located in the southern province of Gaza. The Ministry will award a contract shortly so tourism operation may begin before 2005. In addition to launching tourism in the park, other activities will commence simultaneously to resettle peasant farmers living in the Shinguedzi river basin, an area currently reserved for park operations. Approximately 2,000 wild animals have been introduced into the park from South Africa as part of the restocking plan. Minister of Tourism, Fernando Sumbana, would like to create routes so that tourists may start visiting the area, bringing in money to further develop the park's infrastructure, assure park sustainability, and benefit the surrounding communities.

PORTS, ROADS, AND RAILWAYS

(SBU) Two representatives from the World Bank (WB) Transport Group, Washington, DC paid a visit to Embassy officers. WB representatives are on a two-week visit to Maputo to carry out a review of negotiations between the GRM (Ministry of Transportation) and Indian company Rites and Ircon, the chosen developer of the Sena Railway Line. The WB will provide Rites and Ircon a $100 million soft loan to reconstruct the Sena Line. Loan approval is estimated to take place in August. According to the WB, the main justification for rehabilitating the 600 km Sena Line is to restore a railway line that used to carry up to about 2 million tons of goods during its past operation, at an average cost of about $200,000 per km (total cost of nearly $120 million). The expected economic rate of return is 18%, as presented in an economic report by ECORYS, but it is believed to be commercially viable only as a public-private partnership where IDA funds ($104.5 million) are on-lent to the private sector (25 year concession) at a concessionary rate and the private sector is investing $35 million (including the rolling stock and investments in the Machipanda/Zimbabwe Line). Additionally, the WB made clear that the concession for the Moatize coalmines, the ultimate target for export, is completely separate from the rail concession. Barge transport would be considered as a technically viable alternative for the transport of coal when, and if, it does materialize from the Moatize coalmines if successfully concessioned (not expected for another eight years or so), and where tonnage would be expected to be in the order of 6-10 million/year. Quoting WB sources, "The existence of the Sena Line would therefore not preclude consideration of the barge transport as an alternative, which could well present a competitive alternative to be considered by the private sector." According to the WB, Minister of Transportation Salomao, has extended an invitation to the U.S. firm seeking investment in Zambeze River barging, ACLI, to conduct a Zambeze River Survey. This effort was ignored and most likely blocked in the past, due to the fear that barging would derail plans for reconstruction of the Sena Line (REF B).

ENERGY

(U) Stating that Mozambique must expand access to energy to encourage development, Nazario Meguigy, director of the Project Technical Implementation Unit (UTIP), reopened debate on construction of the Mphanda Nkhuwa Dam. According to local news sources, Meguigy warned that Mozambique runs the risk of losing large industrial projects if it does not accelerate negotiations for dam and power plant construction, which began in August of last year. Mphanda Nkhuwa would be located on the Zambeze River, southeast of the country's largest energy-producing dam, Cahora Bassa. Because the majority of energy generated from Cahora Bassa is soaked up by South Africa, it does not provide significant development opportunities for Mozambique. Meguigy supports development of a second dam because it would create infrastructure, employment, stimulate economic growth, and raise the standard of living for Mozambicans in

the surrounding area. Up until this point, the UTIP has only solicited large construction firms and financial institutions that may be interested to invest. At the same time, reopening this debate has incited many environmentalists to argue against dam construction, saying that dams worsen the quality of life for surrounding citizens rather than improving them.

AGRICULTURE

(U) The Luabo sugar mill, located in Zambezia, may soon be rehabilitated if the GRM and Mauritius successfully conclude negotiations. Rehabilitation of Luabo is estimated to cost between $60-80 million and will produce sugar, rice, and raise cattle (as part of the Luabo complex). Currently, there are four sugar factories operating in Mozambique, employing over 17,000 workers. Launched in May, the 2004 agricultural campaign is expected to produce around 253,000 tons of sugar, representing a 20% increase in production from last year.

(U) The current agricultural campaign is estimated to produce over two million tons of staple crops in 2004, a target set by the National Agricultural Development Program, PROAGRI. Production of grain and vegetables is up by ten percent and root crops up by five percent in 2004. Vice-Minister of Agriculture, Joao Carrilho, stated that marketing of agricultural products must be improved, implying greater access to micro-credit and existence of banking institutions in rural areas. In Mozambique, approximately 30 micro-credit institutions (all in urban areas) serve 52,000 customers and lend the equivalent of $8 million. One of the Ministry's challenges, according to the vice minister, is to attract savings held in rural areas where farmers keep their money at home due to the lack of rural financial institutions. Regarding this issue, Deputy Governor of the Bank of Mozambique, Ernesto Gove, promised that rural savings and finance will gain new momentum with the implementation of a new law, recently approved by the Parliament, which calls for extension of micro-credit to rural areas.

(U) The National Prices and Wages Commission published the new price for raw cotton under the 2004 agricultural campaign on June 2. Companies must pay producers a minimum of 5,000 meticais (US$0.20)/kilo for first-class cotton. This amount is a 30% increase in the price from the previous year. The decision was made by the Commission in order to resolve a deadlock in negotiations between peasant producers and buying companies that took place in Nampula, the country's largest cotton-growing region, in recent months. The recent recovery of world cotton prices has significantly helped the situation of local producers.

LABOR

(SBU) The Minister of Labor, Mario Lampiao Sevene, is individually calling in donors (including the USG) to present his plan and timetable for revision of the labor law, expected in 2005. In a recent meeting with the U.S. Ambassador to Mozambique, Sevene made clear intentions for the Ministry of Labor to head labor law revision, as opposed to the Technical Law Revision Unit (UTREL), which is generally the lead on drafting technical legal matters (REF C). For many private sector groups and donors who call for greater labor law liberalization, it is worrisome that the Ministry will seek to lead this revision, as many see a greater chance for overhaul and liberalization to be achieved under UTREL as opposed to the Ministry.

HANKINS